

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-10 IO-14 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07

OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10

SS-20 STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15

DRC-01 /179 W

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P 200852Z NOV 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9291

INFO AMEMBASSY SAIGON PRIORITY

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USADB

FOR NAC AGENCIES

E O 11652: ADS, DECON 2/20/74

TAGS: EAID, EFIN, VS

SUBJ: PROPOSED ADB LOANS FOR SAIGON TELECOMMUNICATIONS PROJECT
(VIETNAM)

SUMMARY: ADB MANAGEMENT PROPOSES TWO LOANS TOTALING \$6.2 MILLION EQUIVALENT, OF WHICH \$2.48 MILLION TO BE FROM ORDINARY CAPITAL RESOURCES AND \$3.72 MILLION FROM SPECIAL FUNDS RESOURCES, TO REPUBLIC OF VIETNAM TO FINANCE FOREX COST OF AN ADDITIONAL TELEPHONE EXCHANGE AND ASSOCIATED OUTSIDE DISTRIBUTION PLANT AND SUBSCRIBERS' INSTRUMENTS FOR EXPANSION OF TELEPHONE SYSTEM IN SAIGON METROPOLITAN AREA. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC R101-73 WITH ATTACHMENTS DESCRIBING PROPOSED
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LOANS POUCHED ADDRESSEES NOV 19. BOARD CONSIDERATION

SCHEDULED DEC 6.

2. ADB MANAGEMENT PROPOSING \$2.48 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES AND \$3.72 MILLION FROM SPECIAL FUNDS RESOURCES (TOTAL OF \$6.2 MILLION) TO REPUBLIC OF VIETNAM. PROCEEDS WILL FINANCE FOREX COST OF NEW 10,000 LINE TELEPHONE EXCHANGE PROJECT FOR EXPANSION OF TELEPHONE SYSTEM IN SAIGON METROPOLITAN AREA COMPRISING DISTRICTS OF SAIGON, CHOLON, GIA DINH, CONG HOA AND TAN SON NHUT. PROPOSED TERMS ARE 25 YEAR AMORTIZATION INCLUDING 4 YEAR GRACE PERIOD, 7 1/2 PERCENT INTEREST FOR ORDINARY CAPITAL LOAN AND 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT INTEREST FOR SPECIAL FUNDS LOAN. REPUBLIC OF VIETNAM TO BE BORROWER AND VIETNAM TELECOM-MUNICATIONS ADMINISTRATION (VTA) EXECUTING AGENCY. GOVT WILL RELEND BANK LOANS TO VTA AT 7.5 PERCENT INTEREST AND WILL LEVY CORPORATE INCOM TAX OF 45 PERCENT.

3. APPROXIMATELY 80 PERCENT OF 42,800 TELEPHONE LINES IN VIETNAM ARE INSTALLED IN SAIGON METROPOLITAN AREA, NERVE CENTER OF COUNTRY,S TELECOMMUNICATIONS SYSTEM. AREA ACCOUNTS FOR FIVE TELEPHONE EXCHANGES, ALL AUTOMATIC, OF NATIONAL TOTAL OF 85 EXCHANGES, OF WHICH 55 ARE MANUALLY OPERATED. THERE IS ACUTE SHORTAGE OF TELEPHONES IN VIETNAM, PARTICULARLY IN SAIGON AREA. TELEPHONE DENSITY IN SAIGON AREA IS ONLY ONE TELEPHONE PER 100 PEOPLE, WHICH IS LOWER THAN IN MOST OTHER ASIAN CITIES. USAID-FINANCED TELECOMMUNICATIONS MASTER DEVELOPMENT PLAN STUDY ESTIMATED THAT IN 1971 ONLY ABOUT 20 PERCENT OF POTENTIAL DENAND FOR TELEPHONES WAS ACTUALLY BEING SATISFIED AND THAT TI WILL TAKE SEVERAL YEARS TO SATISFY EXISTING AND GROWTH IN DEMAND.

4. VTA HAS DRAWN UP LONG TERM PROGRAM (1973-1984) FOR PHASED DEVELOPMENT OF TELECOMMUNICATIONS SYSTEM IN VIETNAM DESIGNED TO SATISFY HUGE EXCESS DEMAND FOR TELEPHONES. PROPOSED PROJECT IS PART OF FIRST PLAN (1973-1978) OF LONG TERM PROGRAM AND HAS BEEN ACCORDED HIGH PRIORITY BY GOVT. PROJECT, WHICH REPRESENTS ONE OF SEVERAL STEPS NOW BEING TAKEN BY GOVT AND VTA TO ALLEVIATE ACUTE TELEPHONE SHORTAGE, CONSISTS OF (A) PROCUREMENT AND INSTALLATION OF 10,000 LINES LIMITED OFFICIAL USE

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OF CROSSBAR TYPE AUTOMATIC SWITCHING EQUIPMENT TOGETHER WITH ASSOICATED EQUIPMENT; (B) DISTRIBUTION CABLES FOR OUTSIDE PLANT NETWORK WITH RELATED EQUIPMENT INCLUDING SUBSCRIBERS' APPARATUS AND TERMINALS; (C) SPECIALIZED EQUIPMENT FOR NEW EXCHANGE BUILDING TO HOUSE SWITHCING EQUIPMENT PRO-CURED UNDER PROJECT; (D) SPECIALIZED MOTOR VEHICLES FOR INSTALLATION AND MAINTENANCE OF OUTSIDE PLANT; AND (E) CONSULTING ENGINEERING AND ADVISORY SERVICES FOR

PROJECT IMPLEMENTATION AND STRENGTHENING OF VTA.

5. TOTAL COST OF PROJECT IS ESTIMATED AT \$6.9 MILLION, OF WHICH FOREX COMPONENT OF \$6.2 MILLION PROPOSED FOR BANK FINANCING. LOCAL CURRENCY COMPONENT OF \$0.7 MILLION, WHICH IS TO BE FINANCED BY VTA FROM OWN RESOURCES INCLUDES ENTIRE COST OF CONSTRUCTING EXCHANGE BUILDING IN WHICH EXCHANGE EQUIPMENT TO BE PROCURED UNDER PROPOSED LOAN WILL BE INSTALLED. GOVT HAS ASSURED ALL LOCAL CURRENCY FUNDS WILL BE MADE AVAILABLE AS NEEDED. PROJECT IS EXPECTED TO BE COMPLETED BY MID-1977 AND NECESSARY PERFORMANCE TESTS BY END 1977.

6. IN VIEW VIETNAM'S STRAINED ECONOMIC SITUATION AND DIFFICULT BALANCE OF PAYMENTS POSITION, BANK MANAGEMENT RECOMMENDS THAT THIS FINANCIAL ASSISTANCE BE ON CONCESSIONARY TERMS. GRANT ELEMENT OF TOTAL BLENDED LOAN AMOUNT FOR THIS PROJECT WORKS OUT AT 56.7 PERCENT. GRANT ELEMENT FROM RECENT BANK FINANCIAL ASSISTANCE FOR SAIGON WATER SUPPLY PROJECT WAS ABOUT 61.5 PERCENT. WEIGHTED AVERAGE

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GRANT ELEMENT ON ABOVE TWO PROJECTS WOULD BE 58.7 PERCENT, WHICH WOULD BE EQUAL TO AVERAGE GRANT ELEMENT FOR VIETNAM IN 1972. GOODS AND SERVICES TO BE PROCURED UNDER PROPOSED BANK LOANS TO BE DIVIDED AS FOLLOWS: (A) FROM ORDINARY RESOURCES: SWITCHING EXCHANGE EQUIPMENT (\$2.02 MILLION), ADVISORY CONSULTANTS (\$300,000), AND CONTINGENCY (\$160,000); AND (B) FROM SPECIAL FUNDS: OUTSIDE PLANT (\$2.66 MILLION), ENGINEERING CONSULTANTS (\$450,000), SPECIALIZED EQUIPMENT FOR EXCHANGE BUILDING (\$50,000), SPECIALIZED MOTOR VEHICLES (\$75,000) AND CONTINGENCY (\$485,000).

7. ENGINEERING DESIGN CONSULTANTS WILL (A) REVIEW EXISTING TELEPHONE DEMAND FORECAST; (B) PREPARE DETAILED DESIGNS AND TENDER DOCUMENTS FOR ALL EQUIPMENT (INCLUDING SPECIALIZED AIRCONDITIONING AND ELECTRICAL EQUIPMENT FOR NEW EXCHANGE BUILDING) TO BE PROCURED UNDER LOANS; (C) ASSIST IN BID EVALUATION AND CONTRACT PREPARATION; (D) INSPECT AND SUPERVISE EQUIPMENT INSTALLATION; SUPERVISE SUPPLIER'S ACCEPTANCE TESTS; AND (E) TRAIN LOCAL COUNTERPARTS. ADVISORY ASSISTANCE TO CONSIST OF (A) LIMITED OFFICIAL USE

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FINANCIAL MANAGEMENT EXPERT FOR TWO YEAR PERIOD TO ADVISE ON INTRODUCTION OF SOUND FINANCIAL MANAGEMENT AND BUDGETARY CONTROL PRACTICES; (B) ACCOUNTING EXPERT FOR TWO YEAR PERIOD TO ORGANIZE VTA'S ACCOUNTS ON SOUND COMMERCIAL BASIS; (C) MANPOWER EXPERT FOR SIX MONTH PERIOD TO FORMULATE MANPOWER DEVELOPMENT PROGRAM IN CONSULTATION WITH UNDP/ITU TRAINING CENTER IN SAIGON; AND (D) TARIFF EXPERT FOR SIX MONTH PERIOD TO PROPOSE RATIONAL TARIFF SYSTEM FOR VTA ON NATIONAL BASIS. CONSULTANTS TO BE SELECTED IN ACCORDANCE WITH BANK'S GUIDELINES ON USES OF CONSULTANTS. VTA HAS ASSURED BANK RECOMMENDATIONS BY CONSULTANTS AND ADVISORS WILL BE CARRIED OUT IN MANNER MUTUALLY AGREEABLE TO VTA AND BANK.

8. ALL PROCUREMENT UNDER PROPOSED LOANS TO BE MADE IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT, WITH ELIGIBILITY REQUIREMENTS FOR FINANCING FROM SPECIAL FUNDS RESOURCES TO BE DETERMINED BY BANK. SPECIAL PROCUREMENT UNIT TO BE SET UP WITHIN VTA AND WILL BE ASSISTED BY ENGINEERING CONSULTANTS. CONSTRUCTION AND INSTALLATION OF SWITCHING EXCHANGE EQUIPMENT TO BE ON TURNKEY BASIS; SUPPLIER TO BE RESPONSIBLE FOR COMMISSIONING EQUIPMENT UNDER OVERALL SUPERVISION OF VTA PROJECT MANAGER ASSISTED BY ENGINEERING CONSULTANTS. SELECTION OF LOCAL ARCHITECT AND LOCAL BUILDING CONTRACTOR FOR NEW EXCHANGE BUILDING TO BE MADE BY VTA IN CONSULTATION WITH BANK. ALL PROCUREMENT CONTRACTS FOR SUPPLY OF GOODS EXCEEDING \$50,000 TO BE AWARDED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING;

EXCEPT FOR MINOR ITEMS, ALL OTHERS TO BE AWARDED ON BASIS OF REASONABLE NUMBER OF SUPPLIERS FROM MORE THAN ONE ELIGIBLE COUNTRY.

9. VTA--EXECUTING AGENCY FOR PROJECT--WAS ESTABLISHED BY GOVT UNDER TWO PRESIDENTIAL DECREES DTD JUNE 25, 1973, WHICH DIVIDED FORMER DIRECTORATE OF POST AND TELECOMMUNICATIONS INTO VTA AND GENERAL OFFICE OF POST. VTA HAS STATUS OF AUTONOMOUS, GOVT-OWNED, PUBLIC UTILITY UNDER OVERALL CONTROL OF MINISTRY OF PUBLIC WORKS, COMMUNICATIONS AND POST, VTA WILL BE RESPONSIBLE FOR MANAGING AND OPERATING ALL CIVIL TELECOMMUNICATIONS IN VIETNAM. DECREE OF AUG 6, 1973 OF PRIME MINISTER SETS OUT RESPONSIBILITIES LIMITED OFFICIAL USE

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AND OPERATIONAL PROCEDURES OF VTA. GEA IS TO APPOINT PROJECT MANAGER ON FULL TIME BASIS ACCEPTABLE TO BANK AND SUPPORTED BY ADEQUATE SUITABLE STAFF. ADVISORS TO BE PROVIDED UNDER LOAN (PARA 7 ABOVE) WILL BE ENGAGED BY VTA TO COMPLEMENT AND SUPPLEMENT ASSISTANCE FROM USAID IN FORM OF MANAGEMENT EXPERT AND FROM UNDP'S STAFF TECHNICAL TRAINING PROGRAM AT UNDP/ITU TRAINING CENTER AND IS AIMED AT STRENGTHENING VTAL AS VIABLE COMMERCIAL ENTITY.

10. BANK APPRAISAL MISSION CONSIDERS PROPOSED PROJECT TO BE TECHNICALLY SOUND AND FINANCIALLY AND ECONOMICALLY VIABLE WITH ESTIMATED LIFE OF TWENTY-FIVE YARS. ADEQUATE TELECOMMUNICATIONS FACILITIES ESSENTIAL DURING POSTWAR RECONSTRUCTION AND REHABILITATION PERIOD, AND PROPOSED PROJECT IS ONE OF SEVERAL STEPS NEEDED TO IMPROVE COMMUNICATIONS. PROJECT WILL ASSIST DEVELOPMENT OF COMMERCIAL AND INDUSTRIAL ACTIVITY AND WILL COMPLEMENT GOVT'S EFFORTS TO IMPROVE SERVICES OF PUBLIC UTILITIES AND TO PROMOTE FOREIGN INVESTMENT INFLOW. FINANCIAL AND ECONOMIC RATES OF RETURN ESTIMATED AT 12.4 PERCENT AND 15.6 PERCENT, RESPECTIVELY. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST SAIGON'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972. SULLIVAN

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